



**PERSONAL PROPERTY TAX
ELIMINATION
IMPACT TO STERLING HEIGHTS**

**SENATE FINANCE COMMITTEE
TESTIMONY**

Wednesday, February 9, 2011

**Richard J. Notte, Mayor
Mark D. Vanderpool, City Manager**

Senate Finance Committee:

Jack Brandenburg, Chair
Mark Jansen
John Pappageorge
John Proos
David Robertson
Steven Bieda
Rebekah Warren

PERSONAL PROPERTY TAX
ELIMINATION
IMPACT TO STERLING HEIGHTS

The proposed elimination of personal property tax revenue in Senate Bill No. 34 would have devastating impact on the services valued by the residents of Sterling Heights. The City funds its core street level services from property tax revenues. The elimination of all personal property tax would result in a \$9.2 million loss or a 15% decrease to our tax base. With over 75% of our budget dedicated to police and fire protection, refuse collection, and the maintenance of our streets, this revenue loss would have a severe impact on the services that make our community a great place to live and do business.

Cities across Michigan are working hard to foster new manufacturing investments.

- Since 2003 manufacturing corporations have invested \$2.3 billion in Sterling Heights creating over 2,600 jobs.
- Of this amount, 40% has occurred in the last two years during the worst economic time in the state's history.

Why are corporations investing in Sterling Heights?

- Quality of life
- Educational opportunities
- Transportation network
- Michigan is competitive with other states.

State Business Tax Climate Index, 2006 - 2011

| | FY 2011 State Business Tax Climate Index | | FY 2010 State Business Tax Climate Index | | Change from 2010 to 2011 | | FY 2009 State Business Tax Climate Index | | FY 2008 State Business Tax Climate Index | | FY 2007 State Business Tax Climate Index | |
|----------------------|--|------|--|------|--------------------------------|------|--|------|--|------|--|------|
| | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank |
| US | 5.00 | | 5.00 | | | | 5.00 | | 5.00 | | 5.00 | |
| Alabama | 4.99 | 28 | 5.19 | 19 | -0.20 | -9 | 5.30 | 20 | 5.08 | 23 | 5.16 | 22 |
| Alaska | 7.39 | 2 | 7.38 | 3 | 0.02 | 1 | 7.32 | 4 | 7.13 | 3 | 6.99 | 4 |
| Arizona | 4.81 | 34 | 5.01 | 28 | -0.20 | -6 | 5.25 | 24 | 5.01 | 25 | 4.95 | 29 |
| Arkansas | 4.55 | 39 | 4.61 | 40 | -0.07 | 1 | 4.87 | 35 | 4.65 | 37 | 4.72 | 36 |
| California | 3.78 | 49 | 3.88 | 48 | -0.11 | -1 | 4.00 | 49 | 3.83 | 49 | 3.82 | 48 |
| Colorado | 5.57 | 15 | 5.63 | 13 | -0.06 | -2 | 5.89 | 13 | 5.89 | 10 | 5.90 | 11 |
| Connecticut | 4.01 | 47 | 4.72 | 38 | -0.70 | -9 | 4.81 | 37 | 4.60 | 38 | 4.69 | 39 |
| Delaware | 6.03 | 8 | 5.98 | 8 | 0.05 | 0 | 6.01 | 10 | 6.09 | 9 | 6.11 | 8 |
| District of Columbia | 6.53 | 5 | 6.62 | 5 | -0.08 | 0 | 6.92 | 5 | 6.67 | 5 | 6.79 | 5 |
| Georgia | 5.02 | 25 | 5.01 | 29 | 0.01 | 4 | 5.16 | 27 | 4.95 | 28 | 5.18 | 21 |
| Hawaii | 5.06 | 22 | 5.05 | 24 | 0.01 | 2 | 5.27 | 22 | 5.27 | 18 | 5.34 | 16 |
| Idaho | 5.27 | 18 | 5.21 | 18 | 0.06 | 0 | 5.10 | 29 | 5.09 | 21 | 5.05 | 26 |
| Illinois | 5.05 | 23 | 5.01 | 30 | 0.04 | 7 | 5.26 | 23 | 5.04 | 24 | 4.92 | 31 |
| Indiana | 5.79 | 10 | 5.67 | 12 | 0.11 | 2 | 5.88 | 14 | 5.65 | 13 | 5.72 | 12 |
| Iowa | 4.20 | 45 | 4.23 | 46 | -0.02 | 1 | 4.35 | 44 | 4.16 | 46 | 4.38 | 45 |
| Kansas | 4.76 | 35 | 4.93 | 32 | -0.17 | -3 | 5.07 | 31 | 4.87 | 31 | 4.77 | 35 |
| Kentucky | 5.22 | 19 | 5.18 | 20 | 0.04 | 1 | 4.95 | 34 | 4.88 | 27 | 4.96 | 28 |
| Louisiana | 4.71 | 36 | 4.74 | 35 | -0.03 | -1 | 4.98 | 33 | 4.75 | 34 | 4.79 | 33 |
| Maine | 4.88 | 31 | 4.83 | 34 | 0.15 | 3 | 4.88 | 40 | 4.72 | 35 | 4.72 | 37 |
| Maryland | 4.25 | 44 | 4.26 | 45 | -0.01 | 1 | 4.31 | 45 | 4.14 | 47 | 5.08 | 24 |
| Massachusetts | 4.89 | 32 | 4.73 | 36 | 0.16 | 4 | 4.99 | 32 | 4.90 | 33 | 4.79 | 34 |
| Michigan | 5.40 | 17 | 5.35 | 17 | 0.05 | 0 | 5.30 | 21 | 5.32 | 17 | 5.14 | 23 |
| Minnesota | 4.40 | 43 | 4.44 | 43 | -0.04 | 0 | 4.61 | 41 | 4.40 | 42 | 4.39 | 43 |
| Mississippi | 5.09 | 21 | 5.16 | 21 | -0.07 | 0 | 5.32 | 19 | 5.09 | 22 | 5.21 | 19 |
| Missouri | 5.48 | 16 | 5.37 | 16 | 0.11 | 0 | 5.57 | 16 | 5.35 | 16 | 5.37 | 15 |
| Montana | 6.39 | 6 | 6.32 | 6 | 0.07 | 0 | 6.27 | 6 | 6.35 | 6 | 6.42 | 6 |
| Nebraska | 4.88 | 29 | 4.88 | 33 | 0.11 | 4 | 4.55 | 42 | 4.55 | 40 | 4.55 | 41 |
| Nevada | 6.74 | 4 | 7.05 | 4 | -0.31 | 0 | 7.37 | 3 | 7.07 | 4 | 7.07 | 3 |
| New Hampshire | 6.18 | 7 | 6.25 | 7 | -0.07 | 0 | 6.21 | 7 | 6.29 | 7 | 6.32 | 7 |
| New Jersey | 3.96 | 48 | 3.60 | 50 | 0.36 | 2 | 3.90 | 50 | 3.71 | 50 | 3.68 | 50 |
| New Mexico | 4.89 | 33 | 5.06 | 23 | -0.17 | -10 | 5.17 | 26 | 4.93 | 29 | 5.05 | 25 |
| New York | 3.73 | 50 | 3.66 | 49 | 0.07 | -1 | 4.13 | 47 | 4.19 | 45 | 4.29 | 46 |
| North Carolina | 4.47 | 41 | 4.66 | 39 | -0.19 | -2 | 4.74 | 39 | 4.52 | 41 | 4.52 | 42 |
| North Dakota | 5.14 | 20 | 5.04 | 25 | 0.10 | 5 | 5.08 | 30 | 4.86 | 32 | 4.87 | 32 |
| Ohio | 4.16 | 46 | 4.04 | 47 | 0.12 | 1 | 4.12 | 48 | 3.95 | 48 | 3.95 | 47 |
| Oklahoma | 4.98 | 30 | 4.97 | 31 | 0.01 | 1 | 5.40 | 18 | 5.18 | 19 | 5.20 | 20 |
| Oregon | 5.61 | 14 | 5.59 | 14 | 0.02 | 0 | 6.04 | 8 | 6.12 | 8 | 6.06 | 9 |
| Pennsylvania | 5.01 | 26 | 5.03 | 27 | -0.03 | 1 | 5.14 | 28 | 4.92 | 30 | 4.95 | 30 |
| Rhode Island | 4.46 | 42 | 4.33 | 44 | 0.13 | 2 | 4.18 | 46 | 4.20 | 44 | 3.20 | 49 |
| South Carolina | 5.04 | 24 | 5.03 | 26 | 0.00 | 2 | 5.21 | 25 | 5.01 | 26 | 4.98 | 27 |
| South Dakota | 7.43 | 1 | 7.42 | 1 | 0.00 | 0 | 7.50 | 2 | 7.21 | 2 | 7.18 | 2 |
| Tennessee | 5.00 | 27 | 5.10 | 22 | -0.11 | -5 | 5.42 | 17 | 5.16 | 20 | 5.27 | 17 |
| Texas | 5.63 | 13 | 5.70 | 11 | -0.07 | -2 | 6.02 | 9 | 5.79 | 11 | 5.99 | 10 |
| Utah | 5.80 | 9 | 5.80 | 10 | 0.00 | 1 | 5.94 | 11 | 5.71 | 12 | 5.23 | 18 |
| Vermont | 4.86 | 38 | 4.56 | 41 | 0.11 | 3 | 4.52 | 43 | 4.34 | 43 | 4.37 | 44 |
| Virginia | 5.67 | 12 | 5.53 | 15 | 0.14 | 3 | 5.70 | 15 | 5.51 | 15 | 5.51 | 14 |
| Washington | 5.78 | 11 | 5.81 | 9 | -0.03 | -2 | 5.94 | 12 | 5.85 | 14 | 5.67 | 13 |
| West Virginia | 4.67 | 37 | 4.73 | 37 | -0.06 | 0 | 4.86 | 36 | 4.66 | 36 | 4.71 | 38 |
| Wisconsin | 4.55 | 40 | 4.54 | 42 | 0.01 | 2 | 4.76 | 38 | 4.56 | 39 | 4.57 | 40 |
| Wyoming | 7.30 | 3 | 7.38 | 2 | -0.08 | -1 | 7.50 | 1 | 7.24 | 1 | 7.46 | 1 |

Figure 26 Combined Ratings of 2010 Factors Corporate Survey 2010

| Site selection factors | | |
|---|------|------------|
| | 2010 | 2009 |
| Ranking | | |
| 1. Highway accessibility | 97.3 | 92.9 (2)** |
| 2. Labor costs | 91.0 | 96.7 (1) |
| 3. Tax exemptions | 90.9 | 88.4 (3) |
| 4. Occupancy or construction costs | 89.8 | 86.7 (7) |
| 5. State and local incentives | 89.3 | 84.9 (8) |
| * 6. Corporate tax rate | 86.3 | 87.0 (5) |
| 7. Availability of skilled labor | 85.9 | 86.9 (6) |
| 8. Inbound/outbound shipping costs | 84.0 | 81.7 (10) |
| 9. Energy availability and costs | 82.1 | 88.0 (4) |
| 10. Availability of buildings | 81.0 | 75.7 (12) |
| 11. Low union profile | 75.4 | 75.8 (11) |
| 12. Environmental regulations | 74.8 | 71.2 (17) |
| 13. Availability of land | 73.4 | 75.7 (12) |
| 14. Availability of advanced ICT services | 72.9 | 83.2 (9) |
| 15. Expedited or "fast-track" permitting | 68.2 | 72.2 (16) |
| 16. Right-to-work state | 67.9 | 74.0 (14) |
| 17. Proximity to major markets | 66.4 | 73.3 (15) |
| 18. Proximity to suppliers | 63.6 | 63.9 (19) |
| 19. Raw materials availability | 61.5 | 57.0 (21) |
| 20. Availability of long-term financing | 58.5 | 65.4 (18) |
| 21. Training programs | 56.7 | 61.7 (20) |
| 22. Accessibility to major airport | 50.0 | 49.0 (23) |
| 23. Availability of unskilled labor | 45.4 | 55.5 (22) |
| 24. Proximity to technical university | 36.1 | 36.7 (24) |
| 25. Railroad service | 36.0 | 27.4 (25) |
| 26. Waterway or seaport accessibility | 21.9 | 17.7 (26) |
| Quality-of-life factors | | |
| Ranking | | |
| 1. Low crime rate | 84.6 | 79.0 (1) |
| 2. Healthcare facilities | 72.2 | 68.4 (2) |
| 3. Housing costs | 68.4 | 61.5 (4) |
| 4. Housing availability | 66.4 | 62.4 (3) |
| 5. Ratings of public schools | 61.2 | 61.4 (5) |
| 6. Climate | 56.3 | 55.0 (6) |
| 7. Colleges and universities in area | 53.2 | 50.7 (8) |
| 8. Cultural opportunities | 48.7 | 46.0 (9) |
| 9. Recreational opportunities | 48.2 | 52.7 (7) |

* All figures are percentages, and are the total of "very important" and "important" ratings from Area Development's Corporate Survey, which are based on the scores from all companies.

** () 2009 ranking

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| 9. Energy availability and costs | 82.1 | 80.0 (9) |
| 10. Availability of buildings | 81.0 | 75.7 (12) |
| 11. Low union profile | 75.4 | 75.8 (11) |
| 12. Environmental regulations | 74.8 | 71.2 (17) |
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| 15. Expedited or "fast-track" permitting | 69.2 | 72.2 (16) |
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| 18. Proximity to suppliers | 63.6 | 63.9 (19) |
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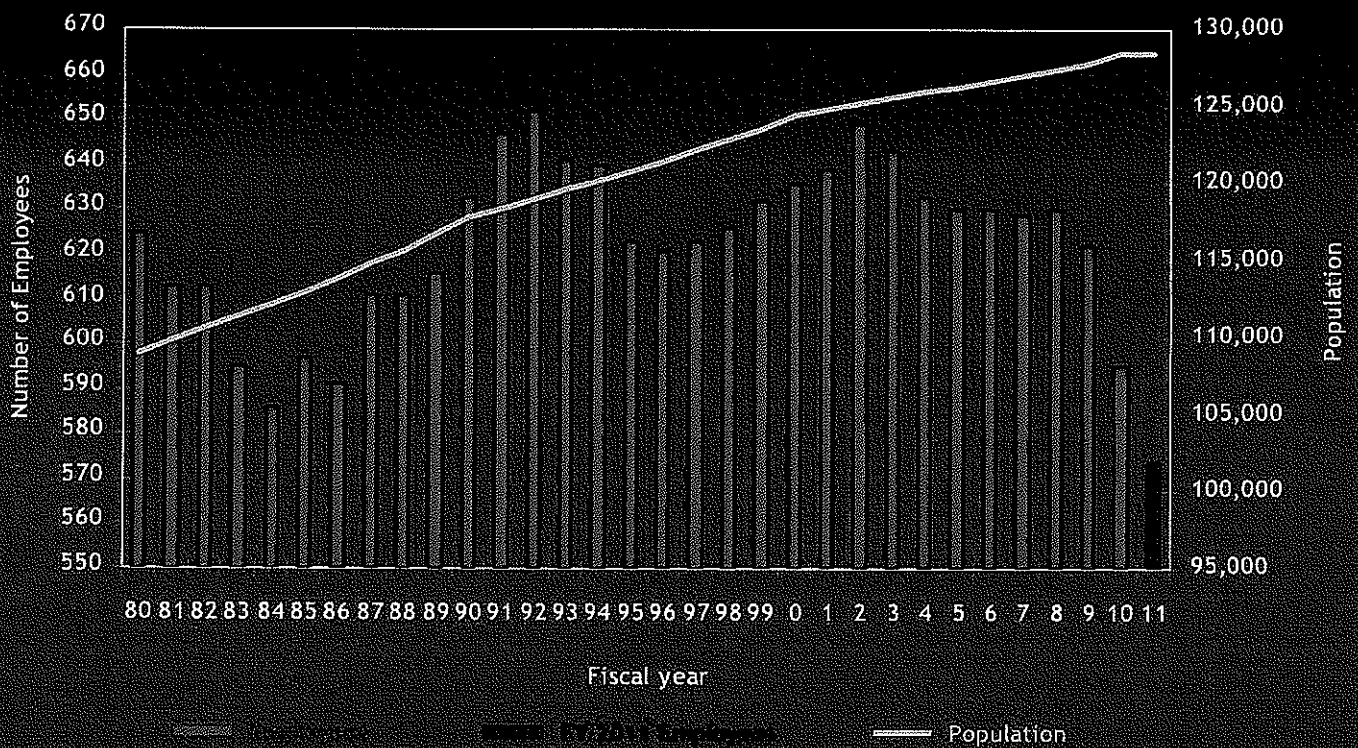
^a All figures are percent ratings and are the sum of every respondent's rating for each factor, divided by the total number of respondents, and are rounded to the nearest tenth of a percent.

Source: AREDA survey.

**Quality of life will be impacted if Personal
Property Tax is eliminated without a
replacement revenue sources.**

As a service organization, most of our cost is for the employees that provide services. To offset a \$9.2 million loss from personal property taxes, the City would need to reduce another 100 full-time positions. As the City has already reduced its staffing by over 100 positions since 2002, most of these positions would have to come from vital street level services such as police and fire. As an example, we would have to reduce our Police Department staffing by 50% or almost completely eliminate our Fire Department. As you can see, these cuts would severely impact public safety. This would be detrimental to our successful economic development efforts.

Lowest City Staffing Since 1970's

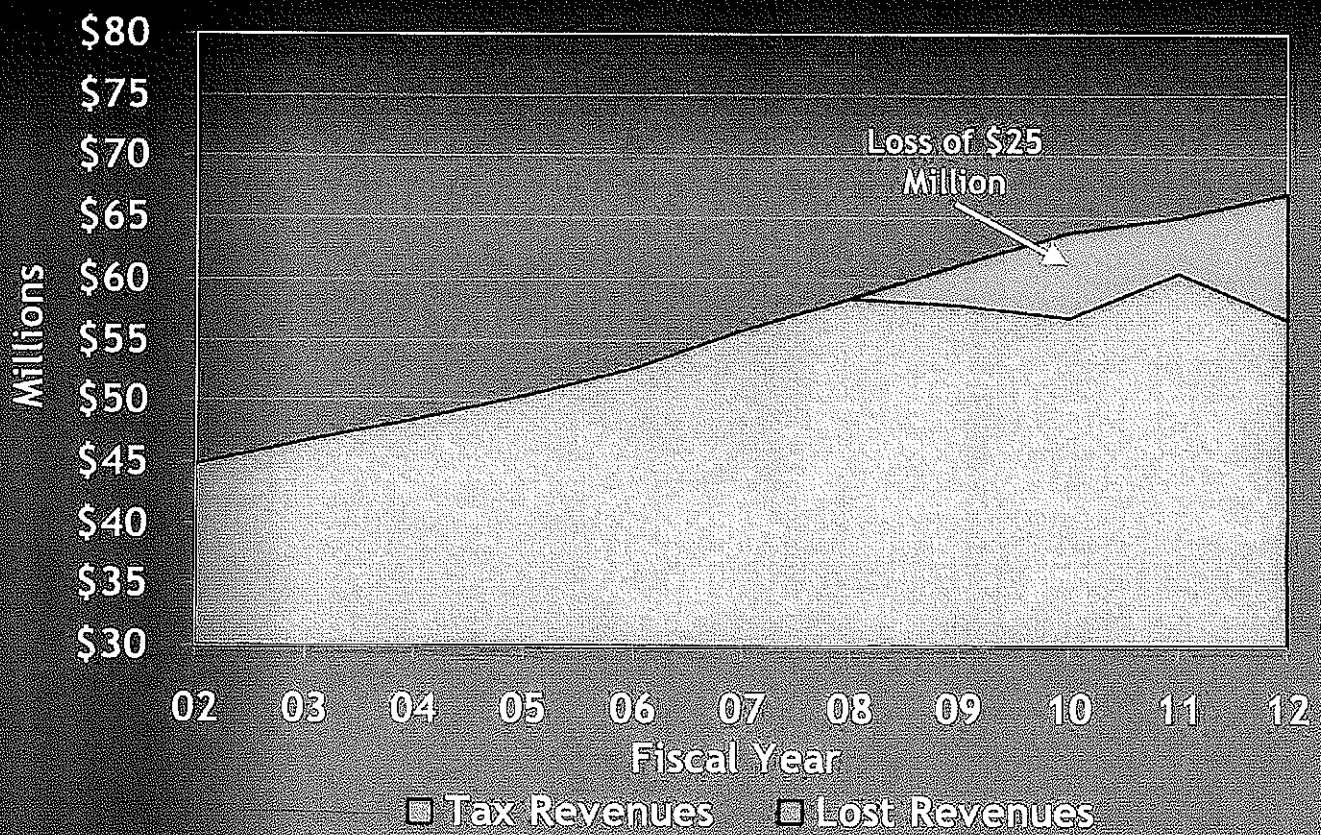


**State funding sources to Cities have
already been drastically cut.**

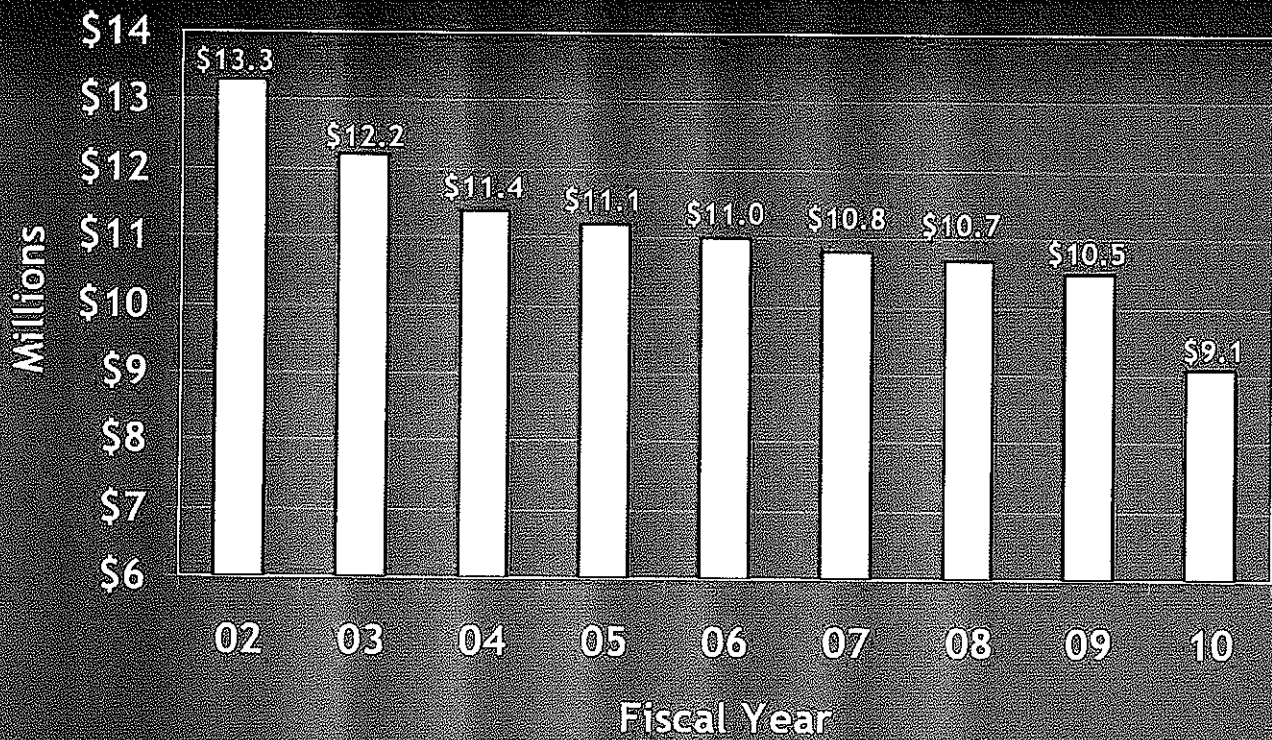
This additional \$9.2 million loss must also be viewed in the context of other large revenue losses all municipalities have suffered due to falling property assessments and State budget cuts. In Sterling Heights, we have lost \$25 million in tax revenues since 2008 due to a 40% decline in property values. State Revenue Sharing, our second largest revenue source, has been cut by another \$25 million since 2002. We now receive less from the State than we did in 1993. Gas tax revenues have fallen by \$3.1 million since 2004. In addition, the State Tax Commission (STC) recently reduced personal property taxes for the Big 3 automakers by nearly 50% resulting in a \$2.2 million tax loss to the City.

- Over 100 communities are now on the State's financial watch list.

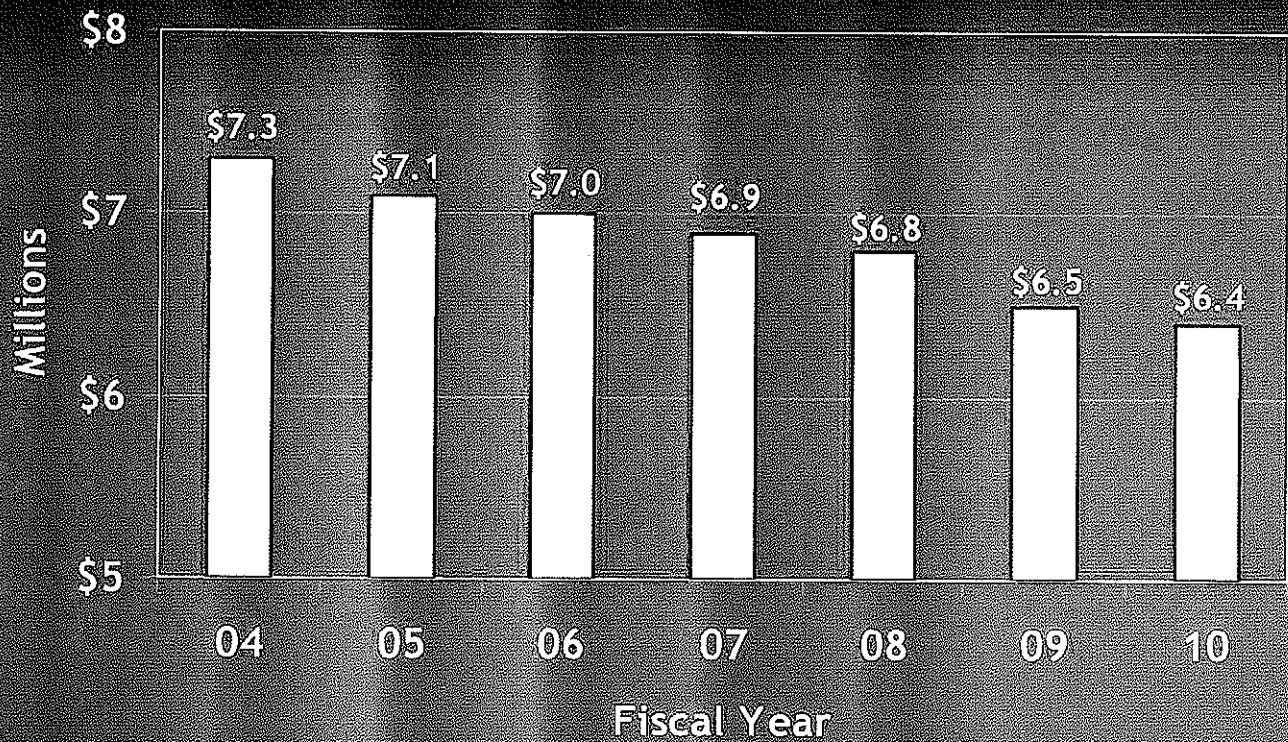
City Property Tax Revenues



Declining State Revenue Sharing Payments to City



City Lost \$3.1 Million in State Gas Tax Revenues Since 2004



Sterling Heights Reducing Operational Costs

As a result of these declining revenues, the City has worked hard to control and cut its costs. We have already reduced our staffing back to 1978 levels. We have achieved wage and benefit concessions from our labor groups and are seeking additional concessions. We have privatized and shared services. Meanwhile, we have also provided tax relief to all taxpayers, as our tax rate is lower than 85% of all cities in the State. Our tax bills have declined to their lowest level in ten years. However, further revenue reductions from eliminating personal property taxes would lead to severe service reductions and the potential for a greater share of the tax burden to be placed on our residents.



The City has worked hard to control and cut its costs over the years. Below is a summary of operational saving implemented to date.

| EXPENDITURE SAVINGS: | ANNUAL SAVINGS |
|--|-----------------------|
| Eliminated 75 full-time positions | \$5.5 million |
| Current year wage concessions | \$1.25 million |
| Reduced overtime costs | \$1.2 million |
| Changed employee health care plans with greater co-pays and deductibles | \$1.0 million |
| Reduced future retiree health care costs | \$1.0 million |
| Custodial and Detention savings | \$800,000 |
| Other program cuts & vendor savings | \$750,000 |
| Eliminated fixed pensions for general employees | \$500,000 |
| TOTAL ANNUAL SAVINGS: | \$12.0 million |

- The City is continuing to seek additional wage and benefit reductions.
- The City has continued to maintain one of the lowest tax rates in the state with 85 percent of all cities having a higher rate.
- The City has also reduced outstanding debt to historic lows resulting in a AAA bond rating.

City of Sterling Heights

Successful Service Sharing Efforts

The city has implemented successful service sharing efforts and outsourcing resulting in savings equal to \$2.7 million

Governments

1. City uses both State and MITN cooperative purchasing arrangements
2. City maintains County roads (mowing, maintenance)
3. City contracts out maintenance of M-59 median for 6 municipalities
4. City participates in Fire Regional Response Teams
5. City purchases Water & Sewer services from City of Detroit
6. City collects County, MISD, MCC, HCMA, and SMART taxes
7. City contracts with County to collect delinquent real & personal property taxes
8. City assigns an officer to the Macomb Auto Theft Squad
9. City partners with US Marshal Service, Narcotics Enforcement & Crime Task Forces
10. City partners with SMART for senior and special recreation transportation
11. City provides assessment and tax abatement processing for all taxing entities
12. City's Fleet Maintenance division maintains Utica's Police motorcycles
13. City's Special Recreation division partners with Waterford Township for trips
14. City agreement to provide water to certain Utica residents
15. County maintains and sells bonds for City's inter-county Chapter 20 drains
16. City operates a Joint Economic Development cooperation for Brownfield, CIA, LDFA's, Abatements on behalf of the County Smartzone, Business INCubator
17. City Police Department uses Troy's gun range
18. City Library Director position is shared with the library cooperative including cost sharing

School Districts

1. City police officer serves as Police school liaison resulting in cost sharing with the school district
2. City uses school playgrounds for Summer Playground Program
3. City uses school gyms for basketball programs, pools for swim classes
4. City maintains school athletic fields
5. City conducts School elections
6. City provides school crossing guards
7. City collects School taxes
8. City tapes and airs school sports programming
9. City uses schools buildings for elections
10. City provides Nature Center for school programming

Not for Profits

1. City partners with Clinton River Watershed to maintain Clinton River
2. City is a member of UASI - a regional emergency management organization
3. City is a member of the Suburban Library Cooperative - material loans
4. City partners with athletic club organizations to support youth sports programs
5. City partners with Chamber of Commerce - Sterlingfest
6. City is a member of RAFT - Regional Alliance for Firefighter Training
7. City generates revenue by renting out certain facilities such as the Upton House and the gazebo, among others

Private Companies

1. City contracts Refuse Collection to Waste Management
2. City contracts Ambulance Services with Universal Ambulance
3. City contracts City Attorney services
4. City contracts Engineering Services with Hubbell, Roth & Clark
5. City contracts City Towing Contract
6. City sponsors swim and water aerobic classes, Sterling Inn
7. City partners with businesses for Emergency Management readiness plans
8. City contracts road right of way, and median maintenance
9. City contracts mowing of Municipal grounds and street tree trimming
10. City contracts the police detention facility
11. City now uses part-time employees in many areas including facilities maintenance

Conclusion

On behalf of communities across the state who rely on revenue generated from the personal property tax, we respectfully request that consideration of Senate Bill 34 be tabled until such time that a reasonable replacement revenue source can be identified and included within the legislation.

City of Sterling Heights

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